

# **City of Farmington, Michigan**

---

**Financial Report**  
**with Supplemental information**  
**June 30, 2008**

# City of Farmington, Michigan

---

## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-10
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14-15
Reconciliation of the Balance Sheet to the Statement of Net Assets	16
Statement of Revenue, Expenditures, and Changes in Fund Balances	17-18
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenue, Expenses, and Changes in Net Assets	21
Statement of Cash Flows	22
Fiduciary Funds:	
Statement of Net Assets	23
Statement of Changes in Net Assets	24
Component Units:	
Statement of Net Assets	25
Statement of Activities	26
Notes to Financial Statements	27-53
<b>Required Supplemental Information</b>	54
Budgetary Comparison Schedule:	
General Fund	55
Major Streets Fund	56
Local Streets Fund	57
Municipal Street Fund	58
Capital Improvement Fund	59
Retirement System Schedule of Funding Progress	60

# City of Farmington, Michigan

---

## Contents (Continued)

<b>Other Supplemental Information</b>	<b>61</b>
Nonmajor Governmental Funds:	
Combining Balance Sheet	62
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	63
Pension and Other Employee Benefit Funds:	
Combining Statement of Net Assets	64
Combining Statement of Changes in Net Assets	65



**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

## Independent Auditor's Report

To the City Council  
City of Farmington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Farmington, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Farmington, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moreau, PLLC*

October 7, 2008

# **City of Farmington, Michigan**

## **Management's Discussion and Analysis**

---

### **Overview of the Financial Statements**

The City's annual report has been prepared in compliance with Governmental Accounting Standards Board (GASB) Statement No. 34 and consists of a management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements were designed to provide a broad overview of the City's finances and are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just current financial resources as measured in the individual fund statements. These statements make a distinction between governmental activities, such as public safety and public works, and business-type activities, such as the provision of water and sewer services. Two government-wide statements are provided.

One government-wide statement, the statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The other government-wide statement, the statement of activities, provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds and compiled financial information is provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works, proprietary funds, which account for business-type activities such as provision of water and sewer services, and fiduciary funds, which account for assets held for outside parties.

A reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities, such as bonds, accrued interest, and accrued employee leave time, in the government-wide statement of net assets, which are not included in the fund balance sheets; and the recognition of certain revenues and expenditures such as bond proceeds, capital outlays, and debt principal repayment in the individual fund statements, which are not recorded in the government-wide statements.

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Position and Results of Operation for the City as a Whole

The City had an increase of \$507,260 in net assets in its governmental activities for the fiscal year ended June 30, 2008. This increase was primarily the result of a planned allocation of City revenue for significant current and future road projects.

The City had an increase of \$445,017 in net assets in its business-type activities for the fiscal year ended June 30, 2008, primarily due to an increase in net assets of its Water and Sewer Fund. The increase in the Water and Sewer Fund's net assets related to property tax revenue of \$800,130, which was used to help offset principal and interest payments for the 1990 Sewer Improvement Bonds and the 2003 Sewer Improvement Bonds of \$796,840. Property taxes are recorded as revenue when received. The principal payment is a reduction of a liability and is not recorded as an expense.

In a condensed format, the tables below show the net assets and changes in net assets (in thousands of dollars) as of June 30, 2008 and 2007.

TABLE I	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current assets	\$ 9,697	\$ 10,593	\$ 3,010	\$ 3,222	\$ 12,707	\$ 13,815
Noncurrent assets	15,952	14,659	17,545	17,644	33,497	32,303
Total assets	25,649	25,252	20,555	20,866	46,204	46,118
<b>Liabilities</b>						
Current liabilities	1,065	965	1,380	1,310	2,445	2,275
Long-term liabilities	4,376	4,586	2,760	3,585	7,136	8,171
Total liabilities	5,441	5,551	4,140	4,895	9,581	10,446
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	11,754	11,202	13,885	13,174	25,639	24,376
Restricted	2,040	2,246	75	75	2,115	2,321
Unrestricted	6,414	6,253	2,455	2,722	8,869	8,975
Total net assets	<u>\$ 20,208</u>	<u>\$ 19,701</u>	<u>\$ 16,415</u>	<u>\$ 15,971</u>	<u>\$ 36,623</u>	<u>\$ 35,672</u>

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 1,571	\$ 1,327	\$ 3,643	\$ 3,323	\$ 5,214	\$ 4,650
Operating grants and contributions	650	655	-	-	650	655
Capital grants and contributions	69	72	3	3	72	75
General revenue:						
Property taxes	5,351	5,055	800	794	6,151	5,849
State-shared revenues	938	943	-	-	938	943
Unrestricted investment earnings	420	510	95	135	515	645
Cable franchise fees	76	71	-	-	76	71
Cell tower fees	30	30	-	-	30	30
Miscellaneous	-	(1)	-	-	-	(1)
Transfers	(71)	(68)	71	68	-	-
Gain on sale of capital assets	5	15	-	-	5	15
Total revenue	9,039	8,609	4,612	4,323	13,651	12,932
<b>Program Expenses</b>						
General government	1,966	2,258	-	-	1,966	2,258
Public safety	3,685	3,338	-	-	3,685	3,338
Public works	2,133	2,156	-	-	2,133	2,156
Health and welfare	15	17	-	-	15	17
Community and economic development	77	26	-	-	77	26
Recreation and culture	495	492	-	-	495	492
Interest on long-term debt	161	164	-	-	161	164
Water and sewer	-	-	3,787	3,742	3,787	3,742
Community theatre	-	-	380	357	380	357
Total program expenses	8,532	8,451	4,167	4,099	12,699	12,550
<b>Change in Net Assets</b>	<b>\$ 507</b>	<b>\$ 158</b>	<b>\$ 445</b>	<b>\$ 224</b>	<b>\$ 952</b>	<b>\$ 382</b>

### Governmental Activities

The City continues to experience modest but steady growth in tax revenues, which have been capped by state statute since 1996 at 5 percent, or the rate of inflation. Expenses, which had remained relatively stable over a number of years and within the general rate of inflation, continue to see increases greater than inflation, particularly in insurance premiums, including healthcare premiums, and in the employer contribution for employee pension and retiree healthcare benefits.



# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

State-shared revenue, statutorily designated to support local community services and historically about 20 percent of the City's general operating revenues, continued to decline in the current year, and is now the third largest revenue source, behind property taxes and charges for service. The State of Michigan continues to capture local government revenues to fund state expenditures. The following is an analysis of the state-shared revenue received by the City:

Year Ended June 30	Statutory Revenue Sharing	Percent Change	Constitutional Revenue Sharing	Percent Change	Total Revenue Sharing	Percent Change
2002	\$ 480,972	-11.2%	\$ 683,261	1.0%	\$ 1,164,233	-4.4%
2003	405,331	-15.7%	694,599	1.7%	1,099,930	-5.5%
2004	305,767	-24.6%	687,509	-1.0%	993,276	-9.7%
2005	276,540	-9.6%	702,303	2.2%	978,843	-1.5%
2006	253,471	-8.3%	716,777	2.1%	970,248	-0.9%
2007	238,893	-5.8%	704,061	-1.8%	942,954	-2.8%
2008	216,544	-9.4%	721,187	2.4%	937,731	-0.5%

The City of Farmington, by policy, strives to maintain a cash surplus sufficient to bridge any expected gap in current year revenues or increases in ordinary, unanticipated current year expenditures. In the General Fund, the City's policy has been to maintain an unreserved fund balance of 25 percent of current year expenditures. Prudent financial planning places the City in a sound financial position with adequate cash reserves. In 2007, the City received an "AA" bond rating, with the rating agency analysis noting that "the City's financial management is excellent, with both short- and long-term planning taking place."

### **Business-type Activities**

The City operates a water and sewer system and a theatre. The water and sewer system provides water and sewage services to almost all of the City's residents and to some outside users. Rates are set to provide for annual operations, to service debt, and to build an operating cash reserve. Rates are evaluated annually and increased July 1, 2007 by 1 percent for water and 0 percent for sewer. Water loss for the year was approximately 7.89 percent of water purchased, and decreased from the prior year by 28.6 percent.

The City operates a theatre, which ended the year with an increase in net assets of \$1,495. This was a slight decrease from the prior year, in which the theatre had an increase in net assets of \$3,491. The theatre's operations continue to break even, with the theatre's debt paid for through a transfer from the Capital Improvement Fund.

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

### Analysis of Individual Funds

Of the City's governmental funds, the General Fund and the Major and Local Streets Funds account for all significant ongoing expenditures, except for debt service.

The General Fund ended the fiscal year with an increase in fund balance of \$187,811. Revenue increased approximately \$478,000 in the current year. The primary reasons for this increase were higher property tax revenue, resulting from an increase in taxable values, and higher charges for service, resulting from increased major and local street fund activity.

Expenditures in the General Fund decreased approximately \$259,000 in the current year. The primary reasons for the decrease related to a one-time retirement incentive program, which took place during the year ended June 30, 2007.

The Major, Local, and Municipal Streets Funds have targeted fund balances of \$200,000, \$100,000, and \$250,000, respectively. The Major and Municipal Streets Funds exceed these fund balances. The Local Streets Fund fund balance dropped below its target in the current fiscal year due to a significantly above average snowfall and the related increase in maintenance of the local roads. City streets are in excellent condition, and as a result of a voter-approved millage for street construction and maintenance, funding remains adequate for future road projects and road repair needs.

The Capital Improvement Fund recorded the statutory portion of state-shared revenue as revenue in the current year. Also, the Capital Improvement Fund recorded property tax millage funds related to the City's sidewalk program. Transfers were made to other funds to fund capital purchases and debt service.

The Downtown Capital Projects Fund recorded the third installment of a donation for Riley Park in the current year. Excess funds were transferred to the Capital Improvement Fund to reimburse that fund for money transferred to the Downtown Development Projects Fund in prior years.

The Shiawassee Road Capital Projects Fund recorded proceeds from bonds issued to fund the reconstruction of Shiawassee Road in the prior year. The expenditures related to this project were recorded in the Major Street Fund and an amount equal to those expenditures was transferred to the Major Street Fund from the Shiawassee Road Capital Projects Fund.

The Grand River Streetscape Capital Projects Fund recorded expenditures related to design and engineering. Funds to pay for the project were provided through a transfer from the Capital Improvement Fund.

The Special Assessments Debt Service Fund recorded the repayment of the 2005 Capital Improvement Bonds. The bonds were repaid through a property tax millage and through special assessments.

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

### General Operating Fund Budget Highlights

**General Fund** - Actual revenues exceeded budget by \$17,312. The original budget was amended to include a reduction in revenue of \$469,005. Significant amendments to budgeted revenue included a reduction in transfers in from the Capital Improvement Fund of \$600,000 related to the planned purchase of a fire truck, which was postponed. Actual expenditures were under budget by \$353,813. Actual expenditures were under budget as a result of approximately \$110,000 of one-time projects budgeted but not begun before the end of the fiscal year and approximately \$245,000 of small favorable budget variances throughout each City department. The original budget was amended to include a decrease in budgeted expenditures of \$521,041. A total of \$600,000 of this decrease was related to the purchase of a fire truck, which was postponed. This decrease was offset by a \$69,000 increase related to an early retirement incentive program.

**Major, Local, and Municipal Streets Fund** - There were no significant revenue variances from the budget. There were no significant amendments to budgeted revenue except transfers related to road construction. Transfers to the road funds are made to provide funding for construction projects. Transfers are only made when expenditures are incurred. The expenditures recorded in these street funds are divided into two categories: construction and operation and maintenance. Variances and amendments to the budget related to construction resulted solely from the timing difference between when the projects were budgeted and when work was completed. The timing differences occur because the City's road programs typically span two fiscal years. There were no significant variances or amendments related to operations and maintenance expenditures.

**Capital Improvement Fund** - There were no significant revenue or expenditure variances from the budget. There were no significant amendments to budgeted revenue or expenditures, except transfers related to road construction.

### Capital Asset and Long-term Debt Activity

Major capital asset and infrastructure additions in governmental funds consisted of the following:

1. Road improvements in the amount of \$2,006,579 for major and local street improvements including the reconstruction of Shiawassee and Power roads
2. Engineering and design work in the amount of \$308,900 related to the Grand River and Grove Street Streetscape project
3. Equipment and vehicles in the amount of \$185,386

Major capital asset and infrastructure additions in the business-type funds consisted primarily of work performed by the City related to the replacement of water mains associated with the reconstruction of Shiawassee and Power roads.

# **City of Farmington, Michigan**

## **Management's Discussion and Analysis (Continued)**

---

During the current year, the City Council passed a resolution to authorize the issuance of \$3.2 million of general obligation capital improvement bonds. Proceeds from the bonds are planned to be used for the purpose of paying part of the cost of acquiring and constructing certain street and streetscape improvements in the downtown area along Grand River and Grove Street.

### **Economic Factors and Next Year's Budgets and Rates**

The City has enjoyed a relatively stable property tax millage rate over many years with the exception of a millage added in 1991 to provide for extensive revisions to the City's sewer system and a road program millage approved by the voters in 1995 to ensure streets in the City are in excellent repair. With these two additions totaling approximately 4 mills, the millage went from about 11 mills in 1990 to just over 14.4163 mills in 2006. During this time, the City also discontinued special assessments for sidewalk repairs, instead providing for sidewalk repairs through the tax millage. In the upcoming fiscal year, the City has reduced its millage by .6 mills. The reduction relates to the elimination of a millage subsidy for refuse collection. The full cost of refuse collection is now charged to users through a fee.

Farmington is a fully developed small city and as such depends on growth in property values to offset growth in expenditures supported by taxes, and to offset reductions in state-shared revenues. Following the passage of what is referred to as Prop A, a constitutional provision and related state legislation limiting local property tax revenues, the City has aggressively sought to increase net assets to protect the City's long-term financial condition.

During the current year, property taxes comprised 58.7 percent of the City's General Fund revenue. Typically, property tax values have increased greater than the rate of inflation. However, due to the local and national decline in the housing market, beginning in 2007 this was no longer the case. During the upcoming fiscal year ending June 30, 2009, the City will experience a decrease in taxable value of approximately .9 percent. The City anticipates additional decreases for the years ending June 30, 2010 and June 30, 2011. State-shared revenues accounted for about 9.0 percent of General Fund revenues this year, down from 9.4 percent last fiscal year, and current funding levels remain at risk as a result of the financial condition and priorities of the State. Due to the uncertainty of state-shared revenues, the City decided to eliminate the statutory portion of state-shared revenue from its General Fund and record it instead in the Capital Improvement Fund.

In order to address the decrease in property taxes and state-shared revenue, the City has reduced its workforce by several positions and has taken steps in labor contract negotiations and other employment agreements to limit wage increases and contain the cost of providing health care and retiree healthcare benefits.

# **City of Farmington, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

In addition to the decline of property taxes and state-shared revenue, the decline of the financial markets in September and October 2008 will have a significant effect on the City's pension system. Currently, the system is funded at 98.2 percent. This percentage will decrease as the result of less than expected returns for the year ended June 30, 2008 and is anticipated to decrease further as the result of less than expected returns for the year ending June 30, 2009. The decrease in the funding percentage will cause the City's annual required contribution, which is paid for by the City's General Fund and Water and Sewer Fund, to increase over the next couple of years.

Adequate cash reserves and authorized unlevied millage ensures provision of current services in the near term as the City meets these challenges and plans for the future.

### **Contacting the City's Financial Management**

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, contact the city manager or city treasurer at City Hall, 23600 Liberty Street, Farmington, Michigan 48335.

# City of Farmington, Michigan

## Statement of Net Assets June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 8,366,244	\$ 1,998,537	\$ 10,364,781	\$ 653,013
Receivables (Note 4)	990,332	1,071,230	2,061,562	603
Internal balances	122,120	(122,120)	-	245
Prepaid costs and other assets	218,186	62,227	280,413	-
Restricted assets	-	75,000	75,000	-
Capital assets (Note 5):				
Depreciable	13,875,177	17,137,699	31,012,876	176,106
Nondepreciable	<u>2,077,405</u>	<u>332,505</u>	<u>2,409,910</u>	<u>76,500</u>
<b>Total assets</b>	<b>25,649,464</b>	<b>20,555,078</b>	<b>46,204,542</b>	<b>906,467</b>
<b>Liabilities</b>				
Accounts payable	397,573	421,208	818,781	54,829
Accrued and other liabilities	150,135	32,423	182,558	8,986
Deferred revenue	9,044	-	9,044	-
Due to other governmental units	245	158	403	135
Noncurrent liabilities:				
Bonds payable, due within one year (Note 7)	213,196	825,000	1,038,196	-
Bonds payable, due in more than one year (Note 7)	3,985,635	2,760,000	6,745,635	-
Employee compensated absences, due within one year	294,654	100,999	395,653	-
Employee compensated absences, due in more than one year	<u>390,651</u>	<u>-</u>	<u>390,651</u>	<u>-</u>
<b>Total liabilities</b>	<b><u>5,441,133</u></b>	<b><u>4,139,788</u></b>	<b><u>9,580,921</u></b>	<b><u>63,950</u></b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	11,753,751	13,885,204	25,638,955	252,606
Restricted:				
Streets and highways	1,858,339	-	1,858,339	-
Sidewalks	149,551	-	149,551	-
Debt service	32,704	-	32,704	-
Bond covenants	-	75,000	75,000	-
Brownfield	-	-	-	1,362
Unrestricted	<u>6,413,986</u>	<u>2,455,086</u>	<u>8,869,072</u>	<u>588,549</u>
<b>Total net assets</b>	<b><u>\$ 20,208,331</u></b>	<b><u>\$ 16,415,290</u></b>	<b><u>\$ 36,623,621</u></b>	<b><u>\$ 842,517</u></b>

# City of Farmington, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,965,551	\$ 673,589	\$ -	\$ -
Public safety	3,684,902	414,080	16,153	25,424
Public works	2,133,428	453,403	633,590	15,850
Health and welfare	15,380	-	-	-
Community and economic development	76,886	9,890	-	-
Recreation and culture	494,503	19,907	-	27,711
Interest on long-term debt	160,931	-	-	-
Total governmental activities	8,531,581	1,570,869	649,743	68,985
Business-type activities:				
Water and sewer	3,786,506	3,335,208	-	2,360
Farmington Community Theater	380,007	308,218	-	-
Total business-type activities	4,166,513	3,643,426	-	2,360
Total primary government	<u>\$ 12,698,094</u>	<u>\$ 5,214,295</u>	<u>\$ 649,743</u>	<u>\$ 71,345</u>
Component units:				
Downtown Development Authority	\$ 411,915	\$ 32,719	\$ 210,000	\$ -
Brownfield Redevelopment Authority	18,614	-	-	-
Total component units	<u>\$ 430,529</u>	<u>\$ 32,719</u>	<u>\$ 210,000</u>	<u>\$ -</u>

General revenues:  
 Property taxes  
 State-shared revenues  
 Unrestricted investment earnings  
 Cable franchise fees  
 Cell tower fees  
 Transfers  
 Gain on sale of capital assets

Total general revenues

## Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Statement of Activities**  
**Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (1,291,962)	\$ -	\$ (1,291,962)	\$ -
(3,229,245)	-	(3,229,245)	-
(1,030,585)	-	(1,030,585)	-
(15,380)	-	(15,380)	-
(66,996)	-	(66,996)	-
(446,885)	-	(446,885)	-
(160,931)	-	(160,931)	-
(6,241,984)	-	(6,241,984)	-
-	(448,938)	(448,938)	-
-	(71,789)	(71,789)	-
-	(520,727)	(520,727)	-
(6,241,984)	(520,727)	(6,762,711)	-
-	-	-	(169,196)
-	-	-	(18,614)
-	-	-	(187,810)
5,350,854	800,130	6,150,984	231,856
937,731	-	937,731	-
420,223	95,056	515,279	28,200
75,732	-	75,732	-
30,387	-	30,387	-
(70,558)	70,558	-	-
4,875	-	4,875	-
6,749,244	965,744	7,714,988	260,056
507,260	445,017	952,277	72,246
19,701,071	15,970,273	35,671,344	770,271
<b>\$ 20,208,331</b>	<b>\$ 16,415,290</b>	<b>\$ 36,623,621</b>	<b>\$ 842,517</b>



# City of Farmington, Michigan

	Major Special Revenue Funds				Major Special Revenue Fund
	General Fund	Major Streets Fund	Local Streets Fund	Municipal Street Fund	Capital Improvement Fund
<b>Assets</b>					
Cash and investments	\$ 3,838,925	\$ 503,002	\$ 6,157	\$ 1,417,048	\$ 2,286,111
Receivables - Net	347,921	95,579	26,478	-	46,118
Prepaid costs and other assets	55,198	-	-	-	-
Due from other funds	290,601	294	63,116	-	118,892
Total assets	<u>\$ 4,532,645</u>	<u>\$ 598,875</u>	<u>\$ 95,751</u>	<u>\$ 1,417,048</u>	<u>\$ 2,451,121</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 260,328	\$ 135,413	\$ 1,832	\$ -	\$ -
Accrued and other liabilities	105,762	-	-	-	-
Deferred revenue	9,044	-	-	-	-
Due to other funds	5,575	97,764	18,326	-	278,983
Due to other governmental units	245	-	-	-	-
Total liabilities	380,954	233,177	20,158	-	278,983
<b>Fund Balances</b>					
Reserved for:					
Sidewalks	-	-	-	-	149,551
Debt service	-	-	-	-	-
Inventory	50,198	-	-	-	-
Unreserved - Reported in:					
General Fund	2,750,088	-	-	-	-
Special Revenue Funds	-	365,698	75,593	312,171	1,679,392
Capital Projects Fund	-	-	-	-	-
Designated (Note 11)	1,351,405	-	-	1,104,877	343,195
Total fund balances	<u>4,151,691</u>	<u>365,698</u>	<u>75,593</u>	<u>1,417,048</u>	<u>2,172,138</u>
Total liabilities and fund balances	<u>\$ 4,532,645</u>	<u>\$ 598,875</u>	<u>\$ 95,751</u>	<u>\$ 1,417,048</u>	<u>\$ 2,451,121</u>

**Governmental Funds  
Balance Sheet  
June 30, 2008**

Major Capital Project Funds			Major Debt Service	Other	Total
Downtown Capital Projects Fund	Shiawassee Road Capital Projects Fund	Grand River Streetscape Capital Projects Fund	Special Assessment Debt Service Fund	Nonmajor Governmental Funds	Governmental Funds
\$ 10,185	\$ 135	\$ -	\$ 2,906	\$ 29,716	\$ 8,094,185
100,000	-	-	374,154	82	990,332
-	-	-	-	-	55,198
50,000	-	228,961	-	-	751,864
<b>\$ 160,185</b>	<b>\$ 135</b>	<b>\$ 228,961</b>	<b>\$ 377,060</b>	<b>\$ 29,798</b>	<b>\$ 9,891,579</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 397,573
-	-	-	-	-	105,762
100,000	-	-	374,154	-	483,198
-	135	228,961	-	-	629,744
-	-	-	-	-	245
100,000	135	228,961	374,154	-	1,616,522
-	-	-	-	-	149,551
-	-	-	2,906	29,798	32,704
-	-	-	-	-	50,198
-	-	-	-	-	2,750,088
-	-	-	-	-	2,432,854
60,185	-	-	-	-	60,185
-	-	-	-	-	2,799,477
60,185	-	-	2,906	29,798	8,275,057
<b>\$ 160,185</b>	<b>\$ 135</b>	<b>\$ 228,961</b>	<b>\$ 377,060</b>	<b>\$ 29,798</b>	<b>\$ 9,891,579</b>

# City of Farmington, Michigan

---

## **Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2008**

<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 8,275,057</b>
--	---------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	15,952,582
--	------------

Long-term liabilities are due and payable in the current period and are not reported in the funds, including:

Compensated absences	(685,305)
----------------------	-----------

Interest payable	(44,223)
------------------	----------

Bonds payable	(4,198,831)
---------------	-------------

Special assessments and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	474,154
--	---------

The City's Internal Service Fund is included as part of governmental activities	<u>434,897</u>
---	----------------

<b>Net Assets - Governmental Activities</b>	<b><u>\$ 20,208,331</u></b>
---	-----------------------------

# City of Farmington, Michigan

	Major Special Revenue Funds				Major Special Revenue Fund
	General Fund	Major Streets Fund	Local Streets Fund	Municipal Street Fund	Capital Improvement Fund
<b>Revenues</b>					
Property taxes	\$ 4,696,701	\$ -	\$ -	\$ 412,919	\$ 41,286
Licenses and permits	94,508	-	-	-	-
Federal grants	27,711	-	-	-	-
State-shared revenues and grants	762,764	472,003	161,587	-	216,544
Charges for services	1,511,280	-	-	-	-
Fines and forfeitures	496,209	-	-	-	-
Other revenue	413,256	24,120	1,783	49,586	87,853
Total revenues	8,002,429	496,123	163,370	462,505	345,683
<b>Expenditures</b>					
Current:					
General government	1,709,358	-	-	-	-
Court	457,463	-	-	-	-
Public safety	3,011,133	-	-	-	-
Public services	1,086,308	2,003,270	225,259	-	-
Health and welfare	15,380	-	-	-	-
Community and economic development	76,886	-	-	-	-
Recreation and culture	444,972	-	-	-	-
Retirement and retiree health care	1,013,118	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	7,814,618	2,003,270	225,259	-	-
<b>Excess of Revenues Over (Under) Expenditures</b>	187,811	(1,507,147)	(61,889)	462,505	345,683
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	926,136	78,366	-	50,000
Transfers out	-	(129,115)	(40,884)	-	(299,519)
Total other financing sources (uses)	-	797,021	37,482	-	(249,519)
<b>Net Change in Fund Balances</b>	187,811	(710,126)	(24,407)	462,505	96,164
<b>Fund Balances - Beginning of year</b>	3,963,880	1,075,824	100,000	954,543	2,075,974
<b>Fund Balances - End of year</b>	<b>\$ 4,151,691</b>	<b>\$ 365,698</b>	<b>\$ 75,593</b>	<b>\$ 1,417,048</b>	<b>\$ 2,172,138</b>

**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2008**

Major Capital Projects Fund			Major Debt Service Fund		
Downtown Capital Projects Fund	Shiawassee Road Capital Projects Fund	Grand River Streetscape Capital Projects fund	Special Assessment Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 54,608	\$ 145,340	\$ 5,350,854
-	-	-	-	-	94,508
-	-	-	-	-	27,711
-	-	-	-	-	1,612,898
-	-	-	-	-	1,511,280
-	-	-	-	-	496,209
103,547	20,106	-	48,395	2,769	751,415
103,547	20,106	-	103,003	148,109	9,844,875
-	-	-	-	-	1,709,358
-	-	-	-	-	457,463
-	-	-	-	-	3,011,133
-	-	228,961	-	-	3,543,798
-	-	-	-	-	15,380
-	-	-	-	-	76,886
-	-	-	-	-	444,972
-	-	-	-	-	1,013,118
-	-	-	50,000	96,450	146,450
-	-	-	51,514	122,092	173,606
-	-	228,961	101,514	218,542	10,592,164
103,547	20,106	(228,961)	1,489	(70,433)	(747,289)
-	-	228,961	-	91,633	1,375,096
(50,000)	(926,136)	-	-	-	(1,445,654)
(50,000)	(926,136)	228,961	-	91,633	(70,558)
53,547	(906,030)	-	1,489	21,200	(817,847)
6,638	906,030	-	1,417	8,598	9,092,904
<b>\$ 60,185</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,906</b>	<b>\$ 29,798</b>	<b>\$ 8,275,057</b>

# City of Farmington, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

**Net Change in Fund Balances - Total Governmental Funds** \$ (817,847)

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures; in the  
statement of activities, these costs are allocated over their estimated  
useful lives as depreciation:

Capital outlay expenditures	2,121,108
Depreciation expense	(822,893)

Governmental funds do not report a gain or loss on disposal of assets  
but record proceeds from the disposal as revenue  
in the statement of activities; the gain or loss on disposal is  
calculated based on the net book value of the asset and  
proceeds received (4,524)

Revenue related to special assessments and contributions are recorded  
when earned in the statement of activities, and recorded only  
when available in the governmental funds (131,179)

Repayment of bond principal is an expenditure in the governmental funds,  
but not in the statement of activities (where it reduces long-term  
debt) 163,987

Accrued interest, recorded in the statement of activities, increased  
in the current year (4,862)

Accumulated employee sick and vacation pay, as well as  
estimated general liability claims, are recorded when earned in the  
statement of activities and these amounts decreased in the current year (41,875)

The City's Internal Service Fund is included as governmental activities 45,345

**Change in Net Assets of Governmental Activities** \$ 507,260

# City of Farmington, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2008

	Enterprise Funds			
	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 1,930,690	\$ 67,847	\$ 1,998,537	\$ 272,059
Receivables - Net	1,071,230	-	1,071,230	-
Due from other funds	679	-	679	-
Other assets	49,835	12,392	62,227	162,988
Total current assets	3,052,434	80,239	3,132,673	435,047
Noncurrent assets:				
Restricted assets	75,000	-	75,000	-
Capital assets	16,446,916	1,023,288	17,470,204	-
Total noncurrent assets	16,521,916	1,023,288	17,545,204	-
Total assets	19,574,350	1,103,527	20,677,877	435,047
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	411,458	9,750	421,208	-
Accrued and other liabilities	25,291	7,132	32,423	150
Due to other funds	3,875	118,924	122,799	-
Due to other governmental units	-	158	158	-
Current portion of employee compensated absences	100,999	-	100,999	-
Current portion of long-term debt	780,000	45,000	825,000	-
Total current liabilities	1,321,623	180,964	1,502,587	150
Noncurrent liabilities - Long-term debt - Net of current portion	2,375,000	385,000	2,760,000	-
Total liabilities	3,696,623	565,964	4,262,587	150
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	13,291,916	593,288	13,885,204	-
Restricted	75,000	-	75,000	-
Unrestricted net assets	2,510,811	(55,725)	2,455,086	434,897
Total net assets	\$ 15,877,727	\$ 537,563	\$ 16,415,290	\$ 434,897

# City of Farmington, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise Funds			
	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
<b>Operating Revenues</b>				
Fees	\$ -	\$ 307,518	\$ 307,518	\$ -
Water sales	1,382,555	-	1,382,555	-
Sewage disposal charges	1,785,292	-	1,785,292	-
Service charges	93,221	-	93,221	177,280
Other income	74,140	700	74,840	17,977
Total operating revenues	3,335,208	308,218	3,643,426	195,257
<b>Operating Expenses</b>				
Source of supply	1,725,786	-	1,725,786	-
Transmission, distribution, and maintenance	965,224	-	965,224	-
Administrative and general	1,009,704	353,538	1,363,242	-
Insurance costs	-	-	-	165,917
Total operating expenses	3,700,714	353,538	4,054,252	165,917
<b>Operating Income (Loss)</b>	(365,506)	(45,320)	(410,826)	29,340
<b>Nonoperating Revenue (Expense)</b>				
Property taxes	800,130	-	800,130	-
Investment income	92,330	2,726	95,056	16,005
Connection fees	2,360	-	2,360	-
Interest expense	(85,792)	(26,469)	(112,261)	-
Total nonoperating revenue (expense)	809,028	(23,743)	785,285	16,005
<b>Transfers in from Other Funds</b>	-	70,558	70,558	-
<b>Change in Net Assets</b>	443,522	1,495	445,017	45,345
<b>Net Assets - Beginning of year</b>	15,434,205	536,068	15,970,273	389,552
<b>Net Assets - End of year</b>	<u>\$ 15,877,727</u>	<u>\$ 537,563</u>	<u>\$ 16,415,290</u>	<u>\$ 434,897</u>



# City of Farmington, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise Funds			
	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 3,313,633	\$ 308,218	\$ 3,621,851	\$ 195,257
Payments to suppliers	(2,295,464)	(216,655)	(2,512,119)	(201,053)
Payments to employees	(783,610)	(101,489)	(885,099)	-
Internal activity - Net payments to other funds	8,451	31	8,482	-
Other receipts	74,140	-	74,140	-
Net cash provided by (used in) operating activities	317,150	(9,895)	307,255	(5,796)
<b>Cash Flows from Noncapital Financing Activities -</b>				
Operating transfer	-	70,558	70,558	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of capital assets	(499,861)	(4,654)	(504,515)	-
Connection fees	2,360	-	2,360	-
Principal and interest paid on capital debt	(850,792)	(71,469)	(922,261)	-
Property taxes	800,130	-	800,130	-
Net cash used in capital and related financing activities	(548,163)	(76,123)	(624,286)	-
<b>Cash Flows from Investing Activities - Interest received on investments</b>	92,330	2,726	95,056	16,005
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(138,683)	(12,734)	(151,417)	10,209
<b>Cash and Cash Equivalents - Beginning of year</b>	2,144,373	80,581	2,224,954	261,850
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 2,005,690</u>	<u>\$ 67,847</u>	<u>\$ 2,073,537</u>	<u>\$ 272,059</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 1,930,690	\$ 67,847	\$ 1,998,537	\$ 272,059
Restricted investments	75,000	-	75,000	-
Total cash and cash equivalents	<u>\$ 2,005,690</u>	<u>\$ 67,847</u>	<u>\$ 2,073,537</u>	<u>\$ 272,059</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ (365,506)	\$ (45,320)	\$ (410,826)	\$ 29,340
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	567,503	35,744	603,247	-
Changes in assets and liabilities:				
Receivables	52,565	-	52,565	-
Due from other funds	16,243	-	16,243	-
Other assets	(1,891)	808	(1,083)	(15,286)
Accounts payable	49,500	(760)	48,740	-
Accrued and other liabilities	6,528	(398)	6,130	(19,850)
Due to other funds	(7,792)	31	(7,761)	-
Net cash provided by (used in) operating activities	<u>\$ 317,150</u>	<u>\$ (9,895)</u>	<u>\$ 307,255</u>	<u>\$ (5,796)</u>

# City of Farmington, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2008

	Pension and Other Employee Benefits	Private Purpose Trust Fund - Cemetery Perpetual Care Trust	Agency Fund
<b>Assets</b>			
Cash and investments:			
Cash and cash equivalents	\$ 28,747	\$ 21,388	\$ 99,194
U.S. governmental securities	2,394,650	-	-
Corporate stock	5,688,308	-	-
Corporate bonds	3,100,224	-	-
Mutual funds	6,341,285	-	-
Foreign stock	684,450	-	-
Investment pools	2,249,411	-	-
Receivables	80,330	-	-
Due from other governmental units	4,367	-	-
Total assets	20,571,772	<u>\$ 21,388</u>	<u>\$ 99,194</u>
<b>Liabilities</b>			
Accounts payable	13,162	\$ -	\$ -
Accrued and other liabilities	533,552	21,388	92,503
Due to other governmental units	-	-	6,691
Total liabilities	546,714	<u>\$ 21,388</u>	<u>\$ 99,194</u>
<b>Net Assets - Held in trust for pension and other employee benefits</b>			
	<u>\$ 20,025,058</u>		

# City of Farmington, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

	Pension and Other Employee Benefits
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 556,093
Net realized and unrealized loss on investments	(859,297)
Less investment expenses	(129,396)
Other	<u>8,056</u>
Net investment income	(424,544)
Contributions:	
Employer	1,024,156
Employee	<u>55,657</u>
Total contributions	<u>1,079,813</u>
Total additions	655,269
<b>Deductions</b>	
Benefit payments	1,093,945
Insurance costs	<u>426,692</u>
Total deductions	<u>1,520,637</u>
<b>Net Decrease in Plan Net Assets</b>	(865,368)
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	
Beginning of year	<u>20,890,426</u>
End of year	<u><u>\$ 20,025,058</u></u>

# City of Farmington, Michigan

## Component Units Statement of Net Assets June 30, 2008

	Component Units		
	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 651,651	\$ 1,362	\$ 653,013
Receivables	848	-	848
Capital assets (Note 5):			
Depreciable	176,106	-	176,106
Nondepreciable	76,500	-	76,500
Total assets	905,105	1,362	906,467
<b>Liabilities</b>			
Accounts payable	54,829	-	54,829
Accrued liabilities	8,986	-	8,986
Due to other governmental units	135	-	135
Total liabilities	63,950	-	63,950
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	252,606	-	252,606
Restricted	-	1,362	1,362
Unrestricted	588,549	-	588,549
Total net assets	<u>\$ 841,155</u>	<u>\$ 1,362</u>	<u>\$ 842,517</u>

# City of Farmington, Michigan

## Component Units Statement of Activities June 30, 2008

			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Downtown Development Authority -</b>						
General government	\$ 411,915	\$ 32,719	\$ 210,000	\$ (169,196)	\$ -	\$ (169,196)
<b>Brownfield Redevelopment Authority -</b>						
Redevelopment	18,614	-	-	-	(18,614)	(18,614)
Total component units	<u>\$ 430,529</u>	<u>\$ 32,719</u>	<u>\$ 210,000</u>	(169,196)	(18,614)	(187,810)
General revenues:						
Property taxes				212,712	19,144	231,856
Unrestricted investment earnings				<u>27,762</u>	<u>438</u>	<u>28,200</u>
Total general revenues				<u>240,474</u>	<u>19,582</u>	<u>260,056</u>
<b>Change in Net Assets</b>				71,278	968	72,246
<b>Net Assets - Beginning of year</b>				<u>769,877</u>	<u>394</u>	<u>770,271</u>
<b>Net Assets - End of year</b>				<b>\$ 841,155</b>	<b>\$ 1,362</b>	<b>\$ 842,517</b>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Farmington (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although the City’s component units are legally separate entities, in substance, they are part of the City’s operations (see discussion below for description and treatment of each component unit).

#### **Blended Component Unit**

The City of Farmington Employees’ Retirement System has been blended into the City’s financial statements. The system is governed by a five-member pension board that includes two individuals chosen by the City Council, two individuals chosen by the employees, and one individual, the city manager, who serves by virtue of his position. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

#### **Discretely Presented Component Units**

The Downtown Development Authority (the “Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of 11 individuals, is selected by the mayor with City Council approval. In addition, the Authority’s budget is subject to approval by the City.

The Brownfield Redevelopment Authority (the “BRA”) was created to assist in the redevelopment of environmentally challenged sites within the City. The BRA’s governing body, which consists of five individuals, is appointed by the mayor with City Council approval.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Jointly Governed Organizations**

The City participates in the Michigan 47th District Court Administration Fund and the Farmington Community Library (the "Library") with the City of Farmington Hills. The City provides 13.56 percent of the funding for the Michigan 47th District Court Administration Fund, and has recorded an equity interest in the amount of \$2,674 for the year ended June 30, 2008. The Library receives funding from a voter-approved operating millage expiring in 2024. With the approval of the operating millage, the City discontinued its funding of the Library's operations.

Complete financial statements for the 47th District Court Administration Fund and the Farmington Community Library can be obtained from the City's administrative offices at 23600 Liberty Street, Farmington, Michigan 48335.

The City participates in the Southwest Oakland Cable Commission (the "Cable Commission") as a joint venture with the cities of Farmington Hills and Novi. The Cable Commission receives 3 percent of the total cable television charges from the cable television company as franchise fees and currently does not receive a subsidy from the City. Financial information for the joint venture can be obtained from the Cable Commission's administrative offices at 33300 Nine Mile Road, Farmington, Michigan.

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC). The RRRASOC is incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of South Lyon. The RRRASOC receives its operating revenue from member contributions and miscellaneous income. The City contributed \$12,768 for the year ended June 30, 2008. Financial information for the RRRASOC can be obtained from the RRRASOC's administrative offices at 20000 West Eight Mile Road, Southfield, Michigan.

For all the above joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the future.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.



### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and state-shared revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- **General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Major Streets Fund** - The Major Streets Fund accounts for the resources obtained through state gas and weight tax revenues that are restricted for use on major streets.
- **Local Streets Fund** - The Local Streets Fund accounts for the resources obtained through state gas and weight tax revenues that are restricted for use on local streets.
- **Municipal Streets Fund** - The Municipal Streets Fund accounts for the resources obtained through property taxes that are used for both major and local street projects.

### **Note I - Summary of Significant Accounting Policies (Continued)**

- **Capital Improvement Fund** - The Capital Improvement Fund accounts for the resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, downtown development, and enterprise projects; and for the acquisition of major capital assets.
- **Downtown Capital Projects Fund** - The Downtown Capital Projects Fund accounts for the resources obtained through debt issuance, city resources, and private donations, which are used for the purpose of constructing a pavilion, park, and two streets in the downtown area.
- **Shiawassee Road Capital Projects Fund** - The Shiawassee Road Capital Projects Fund accounts for the resources obtained through debt issuance, which are used for the purpose of reconstructing Shiawassee Road.
- **Grand River Streetscape Capital Projects Fund** - The Grand River Streetscape Capital Projects Fund accounts for City resources, which are used for engineering related to the reconstruction of the streetscape along Grand River Avenue.
- **Special Assessment Debt Service Fund** - The Special Assessment Debt Service Fund accounts for the collection of special assessments and repayment of debt service on the 2005 Capital Improvement Bonds. The special assessment was established for the purpose of funding improvements in access, parking layout, and infrastructure in the area of the Farmington Central Business District, lying south of Grand River Avenue and east of Farmington Road. The bonds were issued in part to finance the project.

The City reports the following major proprietary funds:

- **Water and Sewer Fund** - The Water and Sewer Fund accounts for the water distribution system and sewage collection system.
- **Farmington Community Theater Fund** - The Farmington Community Theater Fund accounts for the operations of the Civic Theatre.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Additionally, the City reports the following fund types:

**Internal Service Fund** - The Self-insurance Fund accounts for the portion of the City's insurance liability not covered by commercially provided insurance.

**Pension and Other Employee Benefits Funds** - The Pension and Other Employee Benefits Funds account for the resources set aside by the City to provide retirement, health, and insurance benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

**Private Purpose Trust Fund** - The Private Purpose Trust Fund accounts for resources restricted for the upkeep and maintenance of the City's cemetery.

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services.

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Property Taxes** - All trade and property tax receivables are shown as net of allowance for uncollectible amounts, if deemed necessary. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties are assessed.

The 2007 taxable valuation of the City totaled \$424 million, on which ad valorem taxes levied consisted of 10.8995 mills for the City's operating purposes, .1000 mills for sidewalk maintenance, 2.0102 mills for drain and sewer improvements, .1319 for capital improvements, 1.0000 mills for street improvements and maintenance, and .2747 mills for debt service related to the new 47<sup>th</sup> District Court facility. The ad valorem taxes levied, net of related captures, raised \$4,505,000 for operations, \$41,000 for sidewalk maintenance, \$832,000 for drain and sewer improvements, \$55,000 for capital improvements, \$413,000 for street improvements and maintenance, and \$114,000 for debt service related to the 47<sup>th</sup> District Court facility. These amounts are recognized in the respective General, Special Revenue, Debt Service, and Enterprise Funds as tax revenue.

**Prepaid Costs and Other Assets** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Other assets consist primarily of inventories, which are valued at cost, on a first-in, first-out basis.

**Restricted Assets** - Restricted assets consist of cash and cash equivalents in the amount of \$75,000 in the Water and Sewer Fund. These assets are restricted for a replacement reserve as required by the 1991 Water Supply and Sewer Disposal System Bond ordinance.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note I - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City's capital assets are depreciated using the straight-line method over the following useful lives:

Flowage rights	25 years
County roads	20-30 years
Infrastructure	10-50 years
Buildings and improvements	5-80 years
Court building	10-50 years
Equipment and other	4-25 years
Vehicles	3-30 years
Water and sewer mains	50 years
Water storage tank	50 years
Water meters	20 years
Truck and tractors	7-15 years
Office equipment	5-20 years
Other equipment	5-15 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. In the government-wide and proprietary fund financial statements, a portion of the vacation and sick pay is accrued when incurred for the amount that would be paid out upon separation of the employee from the City. In the governmental funds, a liability for these amounts is reported only for employee terminations as of year end.

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Cash Equivalents** - For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2007		\$ (202,015)
Current year building permit revenue		61,039
Related expenses:		
Direct costs	\$ 114,051	
Estimated indirect costs	<u>11,405</u>	
Total construction code expenses		<u>125,456</u>
Net shortfall for the year ended June 30, 2008		<u>(64,417)</u>
Cumulative shortfall at June 30, 2008		<u>\$ (266,432)</u>

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - The City Charter requires the city manager to submit a budget for the next fiscal year to the City Council on or before the third Monday in April, and the City Council to adopt, by resolution, a budget for the next fiscal year on or after May 1 and not later than the first Monday in June. The City Council may pass amendments to the budget during the fiscal year by resolution.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated.

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and major Special Revenue Funds is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the nonmajor funds can be obtained from the City offices at 23600 Liberty Street, Farmington, MI 48335.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exception:

- Transfers from other funds and proceeds from sale of assets have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City had no significant unfavorable expenditure budget variances.

**Fund Deficit** - The City has an accumulated deficit of \$55,725 in the unrestricted net assets of the Farmington Community Theatre Fund. The City intends to eliminate this deficit by reducing expenditures and expanding rentals of the theatre.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers’ acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund and Retiree Healthcare Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund’s assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all of the above investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended). The City’s deposits and investment policies are in accordance with statutory authority.



# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$2,091,442 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had \$539,371 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

#### Public Employee Health Fund

Investments	0-5 years	5-15 years	> 15 years
Mutual funds	\$ 2,079,198	\$ -	\$ -

#### Retirement System

Investments	0-5 years	5-15 years	> 15 years
Collateralized mortgage obligations	\$ 104,327	\$ -	\$ -
Corporate bonds	1,528,939	771,609	539,627
U.S. federal agencies	-	-	74,566
U.S. federal asset backed	-	-	34,436
U.S. federal mortgage backed	94,208	7,121	2,230,518
Federal Home Loan Mortgage Corp.			
Government National Mortgage Association			
Foreign corporate bonds	-	165,992	-
Total	\$ 1,727,474	\$ 944,722	\$ 2,879,147

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

#### General Government

Investments	Fair Value	Rating	Rating Organization
Chase - Pooled investments	\$ 4,785,924	Aaa	Moody's
Comerica - Pooled investments	960,892	A-I	Standard and Poor's
MBIA - Investments	1,576,367	AAA	Fitch

#### Retirement System

Investments	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 149,000	AAA	Standard and Poor's
Corporate bonds	327,000	AA	Standard and Poor's
Corporate bonds	1,348,000	A	Standard and Poor's
Corporate bonds	1,016,000	BBB	Standard and Poor's
Foreign bonds	166,000	BBB	Standard and Poor's
Collateralized mortgage obligations	104,000	Not Rated	N/A
Federal Home Loan Mortgage Corp.	2,332,000	Not Rated	N/A
U.S. federal agencies	75,000	Not Rated	N/A
Asset backed	34,000	Not Rated	N/A
Chase - Pooled investments	28,749	Aaa	Moody's

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Capital Improvement Fund	Downtown Capital Projects Fund	Special Assessment Debt Service	Nonmajor Governmental Fund	Total
Receivables:								
Taxes	\$ 49,627	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82	\$ 49,709
Special assessments	-	-	-	-	-	374,154	-	374,154
Donations	-	-	-	-	100,000	-	-	100,000
Intergovernmental	266,789	95,579	26,478	45,952	-	-	-	434,798
Interest and other	31,505	-	-	166	-	-	-	31,671
Total receivables	<u>\$ 347,921</u>	<u>\$ 95,579</u>	<u>\$ 26,478</u>	<u>\$ 46,118</u>	<u>\$ 100,000</u>	<u>\$ 374,154</u>	<u>\$ 82</u>	<u>\$ 990,332</u>

Receivables as of year end for the City's Enterprise Fund are as follows:

	Water and Sewer Fund
Receivables:	
Taxes	\$ 139,118
Customer receivables	925,366
Intergovernmental	5,402
Other	1,344
Total receivables	<u>\$ 1,071,230</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. All funds, governmental and business-type, also defer revenue recognition in connection with resources that have been received or recorded as accounts receivable but not earned. At the end of the fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Special assessments	\$ 405,333
Private contributions	200,000
Total	<u>\$ 605,333</u>

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 1,346,502	\$ -	\$ -	\$ 1,346,502
Equity investment in 47th District Court	3,525	-	(851)	2,674
Construction in progress - Street projects	807,991	665,804	(745,566)	728,229
Subtotal	2,158,018	665,804	(746,417)	2,077,405
Capital assets being depreciated/ amortized:				
Flowage rights	946,170	-	-	946,170
County roads	391,690	-	-	391,690
Infrastructure	11,820,982	2,006,579	-	13,827,561
Buildings and improvements	3,202,848	9,756	-	3,212,604
Court building	2,310,486	-	-	2,310,486
Equipment and other	730,609	137,652	(167,447)	700,814
Vehicles	1,316,293	47,734	(8,000)	1,356,027
Subtotal	20,719,078	2,201,721	(175,447)	22,745,352
Accumulated depreciation/ amortization:				
Flowage rights	662,922	37,847	-	700,769
County roads	52,225	13,056	-	65,281
Infrastructure	4,572,635	458,529	-	5,031,164
Buildings and improvements	1,407,469	102,561	-	1,510,030
Court building	246,309	58,309	-	304,618
Equipment and other	546,031	48,630	(162,923)	431,738
Vehicles	730,614	103,961	(8,000)	826,575
Subtotal	8,218,205	822,893	(170,923)	8,870,175
Net capital assets being depreciated	12,500,873	1,378,828	(4,524)	13,875,177
Net capital assets	\$ 14,658,891	\$ 2,044,632	\$ (750,941)	\$ 15,952,582

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 174,009	\$ -	\$ -	\$ 174,009
Construction in progress	87,789	139,962	(69,255)	158,496
Subtotal	261,798	139,962	(69,255)	332,505
Capital assets being depreciated:				
Building	1,869,017	-	-	1,869,017
Water and sewer mains	25,128,199	426,724	-	25,554,923
Water storage tank	53,791	-	-	53,791
Water meters	151,430	324	-	151,754
Truck and tractors	363,750	-	-	363,750
Office equipment	342,336	2,106	-	344,442
Other equipment	194,912	4,654	(575)	198,991
Subtotal	28,103,435	433,808	(575)	28,536,668
Accumulated depreciation:				
Buildings	712,747	51,118	-	763,865
Water and sewer mains	9,258,973	505,725	-	9,764,698
Water storage tank	51,648	1,076	-	52,724
Water meters	135,786	1,588	-	137,374
Truck and tractors	271,647	12,370	-	284,017
Office equipment	261,940	18,856	-	280,796
Other equipment	103,556	12,514	(575)	115,495
Subtotal	10,796,297	603,247	(575)	11,398,969
Net capital assets being depreciated	17,307,138	(169,439)	-	17,137,699
Net capital assets	\$ 17,568,936	\$ (29,477)	\$ (69,255)	\$ 17,470,204

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

Component Unit	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated -				
Land	\$ 76,500	\$ -	\$ -	\$ 76,500
Capital assets being depreciated:				
Land improvements	93,374	65,631	-	159,005
Office equipment	4,380	38,844	-	43,224
Green areas	29,914	-	-	29,914
Subtotal	127,668	104,475	-	232,143
Accumulated depreciation:				
Land improvements	18,632	3,113	-	21,745
Office equipment	4,379	-	-	4,379
Green areas	29,913	-	-	29,913
Subtotal	52,924	3,113	-	56,037
Net capital assets being depreciated	74,744	101,362	-	176,106
Net capital assets	<u>\$ 151,244</u>	<u>\$ 101,362</u>	<u>\$ -</u>	<u>\$ 252,606</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 108,612
Public safety	130,089
Public works	510,471
Recreation and culture	73,721
Total governmental activities	<u>\$ 822,893</u>
Business-type activities:	
Water and sewer	\$ 567,503
Theater	35,744
Total business-type activities	<u>\$ 603,247</u>

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Major Streets Fund	\$ 39,398
	Local Streets Fund	18,313
	Capital Improvement Fund	22
	Grand River Streetscape Fund	228,961
	Water and Sewer Fund	3,875
	Farmington Community Theater Fund	<u>32</u>
Total General Fund		290,601
Major Streets Fund	General Fund	146
	Local Streets Fund	13
	Shiawassee Road Capital Projects Fund	<u>135</u>
Total Major Streets Fund		294
Local Streets Fund	General Fund	4,750
	Major Streets Fund	<u>58,366</u>
Total Local Streets Fund		63,116
Capital Improvement Fund	Farmington Community Theater	118,892
Downtown Capital Projects Fund	Capital Improvement Fund	50,000
Grand River Streetscape Fund	Capital Improvement Fund	<u>228,961</u>
Total Governmental Funds		<u>\$ 751,864</u>
Water and Sewer Fund	General Fund	\$ 679

Interfund balances arise from budgeted transfers occurring subsequent to year end and a short-term operating loan from the Capital Improvement Fund to the Theater Fund.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

#### Interfund Transfers

	Transfers Out					Total
	Capital Improvement	Shiawassee Road Capital Project	Major Streets	Downtown Capital Projects	Local Streets	
Transfers in:						
Major Streets Fund	\$ -	\$ 926,136	\$ -	\$ -	\$ -	\$ 926,136
Local Streets	-	-	78,366	-	-	78,366
Capital Improvements	-	-	-	50,000	-	50,000
Grand River Streetscape	228,961	-	-	-	-	228,961
Nonmajor funds	-	-	50,749	-	40,884	91,633
Total governmental funds	<u>\$ 228,961</u>	<u>\$ 926,136</u>	<u>\$ 129,115</u>	<u>\$ 50,000</u>	<u>\$ 40,884</u>	<u>\$ 1,375,096</u>
Theater Fund	<u>\$ 70,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,558</u>

The transfer from the Capital Improvement Fund to the Grand River Streetscape Capital Projects Fund was made to pay for the engineering related to the reconstruction of the streetscape along Grand River Avenue.

The transfer from the Shiawassee Road Capital Projects Fund to the Major Streets Fund was made to finance a portion of the cost of the reconstruction of Shiawassee Road.

The transfer from the Major Streets Fund to the Local Streets Fund was made to cover local street system expenditures.

The transfer from the Major Streets Fund to the nonmajor funds (2007 Act 175 Debt Fund) was made to repay a portion of the debt used to finance the City's road programs.

The transfer from the Downtown Capital Projects Fund to the Capital Improvement Fund was made because the actual costs for the downtown project were less than anticipated. As a result, the City decided to return a portion of the funds originally transferred to the Downtown Capital Projects Fund from the Capital Improvement Fund.

The transfer from the Local Streets Fund to the nonmajor funds (1995 Act 175 Debt Fund) was made to repay a portion of the debt used to finance the City's road programs.



### **Note 7 - Long-term Debt**

The City issues bonds to provide for the acquisition and construction of major capital facilities. The general obligation bonds are direct obligations and pledge the full faith and credit of the City. The county drain contracts and Michigan Transportation Fund Bonds are also general obligations of the government. The Court Building Agreement with Farmington Hills provides for future payments to Farmington Hills related to the City's purchase of the old 47<sup>th</sup> District Court building from Farmington Hills. The Building Authority Bonds are general obligations of the Farmington Hills Building Authority. Both the City of Farmington and the City of Farmington Hills have signed lease agreements with the Farmington Hills Building Authority, which provide for lease payments in the exact amount of the debt service on the Building Authority Bonds. The City of Farmington records its portion of these lease payments. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Bond and contract obligations:							
Transportation Fund Bond:							
1995 Michigan Transportation Fund Bonds:							
Amount of issue - \$380,000	5.25%-	\$35,000-					
Maturing through 2009	5.65%	\$40,000	\$ 115,000	\$ -	\$ (35,000)	\$ 80,000	\$ 40,000
2007 Michigan Transportation Fund Bonds:							
Amount of issue - \$1,450,000		\$40,000-					
Maturing through 2021	3.9%	\$145,000	1,450,000	-	-	1,450,000	40,000
County drain contract -							
2003 Caddell Drain Refunding Issue:							
Amount of issue - \$286,280	2.0%-	\$22,934-					
Maturing through 2014	4.0%	\$26,097	197,708	-	(25,307)	172,401	24,516
Building Authority Bonds:							
2001 Building Authority Bonds -							
47th District Court:							
Amount of issue - \$1,400,300*	3.875%-	\$53,680-					
Maturing through 2021	5.0%	\$134,200	1,200,110	-	(53,680)	1,146,430	53,680
2005 Capital Improvement Bond:							
Amount of issue - \$1,500,000	3.50%-	\$50,000-					
Maturing through 2019	4.0%	\$155,000	1,400,000	-	(50,000)	1,350,000	55,000
Total governmental activities			\$ 4,362,818	\$ -	\$ (163,987)	\$ 4,198,831	\$ 213,196
<b>Business-type Activities</b>							
General obligation bonds:							
1990 Sewer Improvements:							
Amount of issue - \$12,000,000		\$665,000-					
Maturing through 2010	2.0%	\$725,000	\$ 2,810,000	\$ -	\$ (680,000)	\$ 2,130,000	\$ 695,000
2003 Capital Improvement Sewer Bonds:							
Amount of issue - \$900,000	3.2%-	\$30,000-					
Maturing through 2023	4.8%	\$60,000	790,000	-	(35,000)	755,000	35,000
Revenue bonds:							
1991 Water Supply and Sewer Disposal							
System Bonds:							
Amount of issue - \$934,212		\$50,000-					
Maturing through 2013	2.0%	\$55,000	320,000	-	(50,000)	270,000	50,000
1999 Community Theatre Bonds:							
Amount of issue - \$690,000	5.0%-	\$40,000-					
Maturing through 2015	5.95%	\$65,000	475,000	-	(45,000)	430,000	45,000
Total business-type activities			\$ 4,395,000	\$ -	\$ (810,000)	\$ 3,585,000	\$ 825,000

\* Amount represents the City of Farmington's portion of bonds issued by the City of Farmington Hills' Building Authority.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental and business-type bonds and contracts are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 213,196	\$ 210,561	\$ 423,757	\$ 825,000	\$ 95,065	\$ 920,065
2010	231,616	206,785	438,401	855,000	76,278	931,278
2011	240,825	242,400	483,225	875,000	56,719	931,719
2012	290,034	232,112	522,146	150,000	43,940	193,940
2013	316,617	225,719	542,336	155,000	3,129	158,129
2014-2018	1,747,153	1,003,971	2,751,124	440,000	112,118	552,118
2019-2022	1,159,390	635,132	1,794,522	225,000	32,922	257,922
2023	-	-	-	60,000	1,440	61,440
Total	<u>\$ 4,198,831</u>	<u>\$ 2,756,680</u>	<u>\$ 6,955,511</u>	<u>\$ 3,585,000</u>	<u>\$ 421,611</u>	<u>\$ 4,006,611</u>

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees, and participates in the Michigan Municipal Risk Management Authority, a risk pool for claims relating to property loss, torts, and errors and omissions. The City also participates in the Michigan Municipal League (MML) risk pool for employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The MML risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The activity for the Authority is accounted for in the Self-insurance Fund.

### **Note 9 - Defined Benefit Pension Plan**

#### **Plan Description**

The City of Farmington Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Farmington; this plan covers nearly all employees of the City. The system provides retirement and disability benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of 42 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 56 current active employees. The plan does not issue a separate financial report.

#### **Contributions**

Plan member contributions are recognized in the period in which the contributions are made. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by ordinance and by negotiation with the City's competitive bargaining units and employee groups and requires a contribution from the employees of 0 percent to 3 percent, depending on employee group. The funding policy provides for periodic employer contributions at actuarially determined rates. Investment management costs of the plan are paid by the plan.

#### **Annual Pension Costs**

For the year ended June 30, 2008, the City's annual pension cost of \$520,904 for the plan was equal to the City's actual contribution. The annual contribution was determined as part of an actuarial valuation at June 30, 2006, using the entry actual age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually (including an inflation component of 5 percent), (b) projected salary increases of 5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 5 percent per year, depending on age, attributable to seniority/merit, and (d) no postretirement benefit increase. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The excess of assets over the actuarial liability is being amortized as a level percentage of payroll on a open basis. The remaining amortization period is 20 years.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 9 - Defined Benefit Pension Plan (Continued)

#### Reserves

As of June 30, 2008, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$ 458,057
Reserves for retired benefit payments	11,342,518

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension costs (APC)	\$ 520,904	\$ 658,422	\$ 341,110
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

#### Funding Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 98.2 percent funded. The actuarial accrued liability for benefits was \$18.3 million, and the actuarial value of assets was \$17.9 million, resulting in an unfunded actuarial accrued liability of \$.4 million. The covered payroll (annual payroll for active employees covered by the plan) was \$3.1 million and the ratio for the unfunded actuarial accrued liability to the covered payroll was 10.8 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### Note 10 - Postemployment Benefits

The City provides healthcare benefits to all eligible full-time employees and their eligible beneficiaries upon retirement, based on the employee's years of service. The amount of the benefit is determined based on labor contracts and employee agreements, and in accordance with the City of Farmington's Retiree Health Care Plan (the "Plan"). The Plan was established by ordinance and created under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999 and is administered by the City of Farmington. The Irrevocable Trust Fund (the "Trust Fund"), established in the Plan, funds the City's share of retiree healthcare insurance premiums and is administered by a board of trustees. Currently, 35 retirees are eligible, 30 are participating, and three are receiving payments in lieu of coverage. Payments in lieu of insurance coverage are paid by the City.

The Plan is a single employer defined benefit plan and does not issue a separate stand-alone financial statement.

**Funding Policy** - The City, by ordinance, is required to fund the Trust Fund on an actuarial basis as of the fiscal year beginning July 1, 2008. For the year ended June 30, 2008, the Trust Fund received employer contributions of \$501,927 and paid postemployment healthcare premiums of \$426,692. There are no required employee contributions. The Trust Fund is reported in this financial statement as a Pension and Other Employee Benefit Trust Fund.

The funding progress of the Plan as of the most recent valuation date is as follows:

Valuation as of June 30, 2007:

Actuarial value of assets	\$ 2,162,799
Actuarial accrued liability (AAL)	13,357,631
Unfunded AAL (UAAL)	11,194,832
Funded ratio	16.20%
Annual covered payroll	3,100,000
Ratio of UAAL to covered payroll	361%

### City of Farmington's Retiree Dental Plan

The City provides dental benefits to certain retirees and their eligible beneficiaries, based on the employee's years of service. The amount of the benefit is determined based on labor contracts and employee agreements, and in accordance with the City of Farmington's Retiree Dental Plan (the "Dental Plan"). The Dental Plan was established by resolution and closed to new members during the year ended June 30, 2006. The Dental Plan is administered by the City of Farmington.

### **Note 10 - Postemployment Benefits (Continued)**

Currently, 23 retirees are eligible and participating. Dental benefits are paid for by the City's General Fund.

The Plan is a single employer, self-insured, defined benefit plan and does not issue a separate stand-alone financial statement.

**Funding Policy** - The City reimburses retirees for their dental expenditures up to a defined dollar limit. There is no advance funding. For the year ended June 30, 2008, the City paid postemployment dental reimbursements in the amount of \$8,780.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

#### **City of Farmington's Retiree Health Care Plan**

In the June 30, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0 percent investment rate of return, which is the expected long-term investment return on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after 10 years. The actuarial value of assets was set equal to the reported market value at June 30, 2007. The UAAL is being amortized as a level percentage of projected payroll, if the divisions are open to new hires. The UAAL is being amortized as a level dollar, if the divisions are closed to new hires. The UAAL is being amortized on an open basis, with a remaining amortization period at June 30, 2007 of 30 years.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Postemployment Benefits (Continued)

#### City of Farmington's Retiree Dental Plan

In the June 30, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 3.0 percent investment rate of return, which is the expected long-term investment returns on the City's General Fund assets at the valuation date, and an annual dental reimbursement trend rate of 7.5 percent initially, reduced to 0 as the anticipated reimbursement amount reaches the allowable limit. There are no assets associated with the plan at June 30, 2007. The UAAL is being amortized as a level dollar, since the plan is closed to new hires. The UAAL is being amortized on a closed basis, with a remaining amortization period at June 30, 2007 of 30 years.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### Note 11 - Designated Fund Balance

The following is a summary of the unreserved fund balances of certain governmental funds with management's designations:

	General Fund	Municipal Street Fund	Capital Improvement Fund
Designated for:			
Cemeteries	\$ 46,259	\$ -	\$ -
Accrued benefits	685,305	-	-
Other	619,841	-	-
Subsequent years' expenditures	-	1,104,877	343,195
Total designated	<u>\$ 1,351,405</u>	<u>\$ 1,104,877</u>	<u>\$ 343,195</u>



## **Required Supplemental Information**

---

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Fund Balance - July 1, 2007</b>	\$ 3,963,880	\$ 3,963,880	\$ 3,963,880	\$ -
<b>Resources (Inflows)</b>				
Property taxes	4,675,853	4,698,822	4,696,701	(2,121)
Licenses and permits	81,610	80,329	94,508	14,179
Federal grants	30,451	27,911	27,711	(200)
State-shared revenues and grants	749,250	756,574	762,764	6,190
Charges for services	1,387,858	1,451,494	1,511,280	59,786
Fines and forfeits	416,000	421,000	496,209	75,209
Other revenue	366,100	435,987	413,256	(22,731)
Transfer - Capital Improvement Fund	717,000	113,000	-	(113,000)
Transfer - Self-Insurance Fund	30,000	-	-	-
Total resources (inflows)	8,454,122	7,985,117	8,002,429	17,312
<b>Charges to Appropriations (Outflows)</b>				
General government	1,898,460	1,852,353	1,709,358	142,995
Court	475,073	475,073	457,463	17,610
Public safety	3,669,151	3,060,816	3,011,133	49,683
Public services	1,077,807	1,093,227	1,086,308	6,919
Health and welfare	16,652	16,652	15,380	1,272
Community and economic development	62,850	86,170	76,886	9,284
Recreation and culture	500,917	491,186	444,972	46,214
Retirement and retiree health care	988,562	1,092,954	1,013,118	79,836
Total charges to appropriations (outflows)	8,689,472	8,168,431	7,814,618	353,813
<b>Transfers to (from) Fund Balance</b>	(235,350)	(183,314)	187,811	371,125
<b>Fund Balance - June 30, 2008</b>	<u>\$ 3,728,530</u>	<u>\$ 3,780,566</u>	<u>\$ 4,151,691</u>	<u>\$ 371,125</u>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Fund Balance - July 1, 2007</b>	\$ 1,075,824	\$ 1,075,824	\$ 1,075,824	\$ -
<b>Resources (Inflows)</b>				
State-shared revenue	379,200	379,000	378,049	(951)
Contracts and grants	106,819	95,939	93,954	(1,985)
Other revenue	5,000	20,000	24,120	4,120
Transfers from Municipal Streets Fund	672,125	-	-	-
Transfers from Capital Improvement Fund	720,000	-	-	-
Transfers from Shiawassee Fund	619,000	928,000	926,136	(1,864)
Total resources (inflows)	2,502,144	1,422,939	1,422,259	(680)
<b>Charges to Appropriations (Outflows)</b>				
Construction	2,615,110	1,898,546	1,727,561	170,985
Operations and maintenance	307,810	294,717	275,709	19,008
Transfers out	88,875	129,366	129,115	251
Total charges to appropriations (outflows)	3,011,795	2,322,629	2,132,385	190,244
<b>Transfers from Fund Balance</b>	(509,651)	(899,690)	(710,126)	189,564
<b>Fund Balance - June 30, 2008</b>	<b>\$ 566,173</b>	<b>\$ 176,134</b>	<b>\$ 365,698</b>	<b>\$ 189,564</b>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Fund Balance - July 1, 2007</b>	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
<b>Resources (Inflows)</b>				
State-shared revenue	162,845	162,845	161,587	(1,258)
Other revenue	3,000	2,500	1,783	(717)
Transfer from Municipal Streets Fund	37,875	78,366	78,366	-
Total resources (inflows)	203,720	243,711	241,736	(1,975)
<b>Charges to Appropriations (Outflows)</b>				
Operations and maintenance	162,820	217,811	225,259	(7,448)
Debt service	40,900	40,900	40,884	16
Total charges to appropriations (outflows)	203,720	258,711	266,143	(7,432)
<b>Transfers from Fund Balance</b>	-	(15,000)	(24,407)	(9,407)
<b>Fund Balance - June 30, 2008</b>	<b>\$ 100,000</b>	<b>\$ 85,000</b>	<b>\$ 75,593</b>	<b>\$ (9,407)</b>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Municipal Street Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Fund Balance - July 1, 2007</b>	\$ 954,543	\$ 954,543	\$ 954,543	\$ -
<b>Resources (Inflows)</b>				
Property taxes	411,893	413,234	412,919	(315)
Other income	<u>25,000</u>	<u>37,909</u>	<u>49,586</u>	<u>11,677</u>
Total resources (inflows)	436,893	451,143	462,505	11,362
<b>Charges to Appropriations (Outflows) -</b>				
Transfer to Major Streets Fund	<u>672,125</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Transfers (from) to Fund Balance</b>	<u>(235,232)</u>	<u>451,143</u>	<u>462,505</u>	<u>11,362</u>
<b>Fund Balance - June 30, 2008</b>	<b><u>\$ 719,311</u></b>	<b><u>\$ 1,405,686</u></b>	<b><u>\$ 1,417,048</u></b>	<b><u>\$ 11,362</u></b>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Capital Improvement Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance With Amended Budget
<b>Fund Balance - July 1, 2007</b>	\$ 2,075,974	\$ 2,075,974	\$ 2,075,974	\$ -
<b>Resources (Inflows)</b>				
State-shared revenue	200,000	220,000	216,544	(3,456)
Property taxes	41,228	41,304	41,286	(18)
Investment income	75,000	95,000	87,853	(7,147)
Transfer from General Fund	50,000	50,000	50,000	-
Total resources (inflows)	366,228	406,304	395,683	(10,621)
<b>Charges to Appropriations (Outflows)</b>				
Transfer to General Fund	717,000	113,000	-	113,000
Transfer to Major Streets Fund	720,000	-	-	-
Transfer to Shiawassee Park Fund	513,450	5,000	-	5,000
Transfer to Grand River Streetscape Fund	300,000	228,500	228,961	(461)
Transfer to Theatre Fund	70,558	70,558	70,558	-
Total charges to appropriations (outflows)	2,321,008	417,058	299,519	117,539
<b>Transfers to (from) Fund Balance</b>	(1,954,780)	(10,754)	96,164	106,918
<b>Fund Balance - June 30, 2008</b>	<b>\$ 121,194</b>	<b>\$ 2,065,220</b>	<b>\$ 2,172,138</b>	<b>\$ 106,918</b>

# City of Farmington, Michigan

## Required Supplemental Information Retirement System Schedule of Funding Progress Year Ended June 30, 2008 (dollar amounts in millions)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/01	\$ 16.780	\$ 11.698	\$ (5.082)	143.4	\$ 2.671	-
06/30/02	16.670	12.729	(3.941)	131.0	2.889	-
06/30/03	16.248	13.310	(2.938)	122.1	2.890	-
06/30/04	15.848	14.715	(1.133)	107.7	2.855	-
06/30/05	15.921	15.863	(0.058)	100.4	2.898	-
06/30/06	16.580	17.205	0.625	96.4	3.100	20.16%
06/30/07	17.948	18.284	0.336	98.2	3.097	10.80%

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
2002	06/30/00	\$ 9,873	100.0
2003	06/30/01	24,962	100.0
2004	06/30/02	141,974	100.0
2005	06/30/03	206,638	100.0
2006	06/30/04	341,110	100.0
2007	06/30/05	658,422	100.0
2008	06/30/06	520,904	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2007, the latest actuarial valuation, follows:

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5%-10%
*Includes inflation at	5%

## **Other Supplemental Information**

---



# City of Farmington, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Debt Service			
	Nonvoted	2007 MTA	1995	Total Nonmajor
	Debt Service	175 Debt	Act 175	Governmental
		Service	Debt	Funds
<b>Assets</b>				
Cash and investments	\$ 29,716	\$ -	\$ -	\$ 29,716
Receivables	82	-	-	82
Total assets	<u>\$ 29,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,798</u>
<b>Fund Balances - Reserved</b>	<u>\$ 29,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,798</u>

# City of Farmington, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2008

	Debt Service Funds			Total Nonmajor
	Nonvoted	2007 MTA 175	1995	Governmental
	Debt Service	Debt Service	Act 175	Funds
			Debt	
<b>Revenues</b>				
Property taxes	\$ 145,340	\$ -	\$ -	\$ 145,340
Interest income	2,769	-	-	2,769
Total revenues	148,109	-	-	148,109
<b>Expenditures</b>				
Principal	61,450	-	35,000	96,450
Interest	65,459	50,749	5,884	122,092
Total expenditures	126,909	50,749	40,884	218,542
<b>Excess of Revenues Over (Under) Expenditures</b>	21,200	(50,749)	(40,884)	(70,433)
<b>Other Financing Sources - Transfers in</b>	-	50,749	40,884	91,633
<b>Net Change in Fund Balances</b>	21,200	-	-	21,200
<b>Fund Balances - Beginning of year</b>	8,598	-	-	8,598
<b>Fund Balances - End of year</b>	<u>\$ 29,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,798</u>

# City of Farmington, Michigan

## Other Supplemental Information Combining Statement of Net Assets Pension and Other Employee Benefit Funds June 30, 2008

	Employees' Retirement System	Public Employee Healthcare Fund	Disability Health Insurance Fund	Total
<b>Assets</b>				
Cash and investments:				
Cash and cash equivalents	\$ 28,747	\$ -	\$ -	\$ 28,747
U.S. governmental securities	2,394,650	-	-	2,394,650
Corporate stock	5,688,308	-	-	5,688,308
Corporate bonds	3,100,224	-	-	3,100,224
Mutual funds	6,341,285	-	-	6,341,285
Foreign stock	684,450	-	-	684,450
Investment pools	-	2,178,725	70,686	2,249,411
Receivables	72,274	8,056	-	80,330
Due from other governmental units	4,367	-	-	4,367
<b>Total assets</b>	<b>18,314,305</b>	<b>2,186,781</b>	<b>70,686</b>	<b>20,571,772</b>
<b>Liabilities</b>				
Accounts payable	13,162	-	-	13,162
Accrued and other liabilities	533,552	-	-	533,552
<b>Total liabilities</b>	<b>546,714</b>	<b>-</b>	<b>-</b>	<b>546,714</b>
<b>Net Assets - Held in trust for pension and other employee benefits</b>	<b>\$ 17,767,591</b>	<b>\$ 2,186,781</b>	<b>\$ 70,686</b>	<b>\$ 20,025,058</b>

# City of Farmington, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Funds Year Ended June 30, 2008

	Employees' Retirement System	Public Employee Healthcare Fund	Disability Health Insurance Fund	Total
<b>Additions</b>				
Investment income:				
Interest and dividends	\$ 490,692	\$ 62,807	\$ 2,594	\$ 556,093
Net realized and unrealized gain on investments	(737,862)	(121,435)	-	(859,297)
Less investment expenses	(129,396)	-	-	(129,396)
Other	-	8,056	-	8,056
Net investment income	(376,566)	(50,572)	2,594	(424,544)
Contributions:				
Employer	520,904	501,927	1,325	1,024,156
Employee	54,332	-	1,325	55,657
Total contributions	575,236	501,927	2,650	1,079,813
Total additions	198,670	451,355	5,244	655,269
<b>Deductions</b>				
Benefit payments	1,093,945	-	-	1,093,945
Insurance costs	-	426,692	-	426,692
Total deductions	1,093,945	426,692	-	1,520,637
<b>Net (Decrease) Increase in Plan Assets</b>	(895,275)	24,663	5,244	(865,368)
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>				
Beginning of year	18,662,866	2,162,118	65,442	20,890,426
End of year	<u>\$ 17,767,591</u>	<u>\$ 2,186,781</u>	<u>\$ 70,686</u>	<u>\$ 20,025,058</u>

# **City of Farmington, Michigan**

---

**Report to the City Council**

**June 30, 2008**



**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

October 7, 2008

To the Mayor and Members  
of the City Council  
City of Farmington, Michigan

We have recently completed our audit of the basic financial statements of the City of Farmington, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of results of the audit and informational - legislative matters which impact the City:

	<u>Page</u>
<b>Results of the Audit</b>	I-3
<b>Informational - Legislative Matters</b>	4-9

We are grateful for the opportunity to be of service to the City of Farmington, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Gordon E. Krater".

Gordon E. Krater

A handwritten signature in black ink that reads "William E. Brickey".

William E. Brickey



**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

## **Results of the Audit**

To the Mayor and Members  
of the City Council  
City of Farmington, Michigan

We have audited the financial statements of the City of Farmington, Michigan (the "City") for the year ended June 30, 2008 and have issued our report thereon dated October 7, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated July 1, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Farmington, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in a letter dated August 22, 2008.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Farmington, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008.

To the Mayor and Members  
of City Council  
City of Farmington, Michigan

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the estimate of accounts receivable related to unbilled water and sewer fees.

Management's estimate of the unbilled water and sewer fees is based on historical information. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 5 - Capital Assets, Note 7 - Long-term Debt, and Note 9 - Defined Benefit Pension Plan.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were identified during the audit.

#### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated October 7, 2008.



To the Mayor and Members  
of City Council  
City of Farmington, Michigan

***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

This information is intended solely for the use of the members of the City Council and management of the City of Farmington, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 7, 2008

## **Informational and Legislative Items**

---

## Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include the following:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.

Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have re-learned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values).

Fairly or not, this year many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap,” the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. To date, a proposal to accomplish this change has not moved through the legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the six mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.
- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements does not constitute a taxable addition

### State-shared Revenue

The governor released her proposal of the State’s fiscal year 2009 budget (for the year ending September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ended September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in fiscal year 2007. This proposal was presented to the governor on July 25, and is awaiting her signature.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% Change
Cities, villages, and townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	404.920	392.050	406.933	3.80%
Total to CVTs	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	N/A
Total revenue sharing	\$ 1,070.900	\$ 1,074.830	\$ 1,085.319	0.98%

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in fiscal year 2009 to equal the total of constitutional and statutory revenue sharing received in fiscal year 2008, plus an additional payment equal to 2 percent of the fiscal year 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for fiscal year 2009 will be identical to the amounts received in fiscal year 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

The table below details state-shared revenue for the City since 2003 broken out by statutory and constitutional portions.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>
2003	\$ 405,331	\$ 694,599	\$ 1,099,930
2004	303,767	687,509	991,276
2005	276,540	702,303	978,843
2006	253,471	716,777	970,248
2007	238,893	704,061	942,954
2008	216,544	721,187	937,731
2009 est.	233,690	711,330	945,020

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$233,000 at risk in its Capital Improvement Fund budget based on 2009 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

### **Reminder - Change in Investment Act**

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

### **Recent Revisions to State Transportation Funding Program**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Streets Fund to their Local Streets Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the Major and Local Streets systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Streets Fund and the Local Streets Fund if certain conditions are met.

### **Other Legislative Items**

- As part of Michigan's new "Planning Enabling Act," many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishings, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as “Public Act 20,” which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.